



CENTRAL INTELLIGENCE AGENCY

WASHINGTON 25, D. C.

OFFICE OF THE DIRECTOR

11 January 1962

Honorable Eugene J. McCarthy
United States Senate
Washington 25, D. C.

Dear Senator McCarthy:

During our very pleasant visit on Tuesday, the 9th, you raised the question of an incident that arose in 1956 with certain scientists at the California Institute of Technology. I briefly explained my position and so that you may be fully informed, yesterday I arranged for the delivery to you of a copy of the proceedings before the Joint Committee on Atomic Energy held in connection with my confirmation hearings in July 1958.

I can add nothing to my statements made at that time, although I would be happy to again review this matter with you or anyone else who so desires.

With respect to the second question you asked, that of a contract between the United States Air Force and the Kaiser-Frazer Company which was consummated when I was Under Secretary of the Air Force, 1950 and 1951, I am enclosing a copy of public hearings before the Preparedness Subcommittee No. 1 of the Committee on Armed Services, United States Senate. These hearings were held for several days, starting June 2, 1953, as a result of a personal request by me to the late Senator Styles Bridges.

Here again there is little, if anything, I can add to my sworn testimony. Quite naturally I would be glad to discuss this subject with you or others should you desire.

With reference to this morning's article by Mr. Drew Pearson in which he alleges that my shipbuilding operations were inordinately profitable, this matter too was reviewed by a

Committee of the Congress in 1946. Therefore, I am enclosing a transcript of the Hearings before the Committee on the Merchant Marine and Fisheries, House of Representatives, held for the purpose of investigating Maritime Commissions' merchant shipbuilding program. I have marked the section relating to my personal testimony. Although the subject is now very old inasmuch as shipbuilding operations under my direction were discontinued in 1945 and records are not available to me, my testimony given under oath was complete and to my knowledge satisfied the Committee.

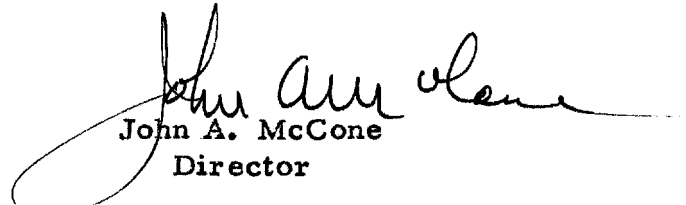
You will readily note from the testimony that our shipbuilding operations were adequately financed through subscribed stock, subordinated stockholders' loans and bank loans for which the stockholders were responsible. The earned fees were substantial because of the vast volume; however, nonreimbursable expenses, contract renegotiation and corporate income taxes reduced the profit to a very modest figure when one considers the scope of the operation. As the testimony indicates the entire undertaking was handled in exact accordance with United States Maritime Commission policy and contractual procedures.

In retrospect I feel the building of this vast yard (the second largest in the United States), the assembly and training of an organization in excess of 40,000 men and women and the production of some 475 ships of various types in record time was really one of the satisfying accomplishments of my life. As a measure of the magnitude of the operation, it is interesting to note that the dead weight tonnage of ships produced in the yard equals approximately 50 per cent of the total American flag tonnage in active operation today.

With respect to the Kaiser contract for transportation of bauxite for the Kaiser Aluminum Company referred to in the Atomic Energy Commission confirmation hearings and also in Mr. Drew Pearson's article, the circumstances were as follows: Some six years after I left the Air Force, Kaiser Aluminum called upon the shipping industry to submit competitive bids for this engagement. My Company and a number of other major shipping interests submitted proposals, and the proposal submitted by my Company proved to be most attractive to the Aluminum Company. In the final negotiations we established

a jointly owned company for the purpose of carrying out the engagement. However, for many years prior and at the time of the Hendy proposal I had no joint interests with Kaiser, I held no stock in any Company of theirs, and they held none in any Company of mine. The executives of Kaiser Aluminum were most meticulous in determining that this undertaking was made with the shipping company which could best serve the interests of their stockholders and that no conflict of interest was involved, and the same considerations were foremost in my mind.

Most sincerely,



John A. McCone
Director

Enclosures

15 January 1962

Note for File

The attached letter is to be retained for information only.
See Mr. Houston's memorandum to the Director of 15 January
1962 concerning his visit with Senator Eugene J. McCarthy.
All copies retained temporarily with no distribution to be made.
Eventually, probably one copy should be held in file with memorandum
mentioned above.



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